Before the

FEDERAL COMMUNICATIONS COMMISSION

Washington, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

In the Matter of	
GTE CORPORATION	
Transferor,	
and	CC Docket No. 98-184
BELL ATLANTIC CORPORATION,	
Transferee,	
For Consent to Transfer of Control	

COMMENTS OF THE COMPETITIVE ENTERPRISE INSTITUTE

The Competitive Enterprise Institute (CEI) hereby submits these comments regarding the application of Bell Atlantic and GTE to transfer control of certain licenses pursuant to a proposed acquisition of GTE by Bell Atlantic. CEI is a non-profit, 501(c)(3) research and education foundation, founded in 1984 to foster marketplace approaches to public policy issues involving regulation. Toward that end, we conduct research, sponsor conferences and forums, and, where appropriate, participate in regulatory proceedings.

CEI has long been involved in public policy debates concerning antitrust and other competition issues. In addition to telecommunications, we have recently commented upon or published research on competition in the airline, electric utility, automobile and computer industries, as well as research on antitrust law in general.[1]

Whenever a large merger is announced, it is not unusual for the initial reaction, especially in the media and among the public, to be negative. This is the especially the case for mergers in telecommunications. Each time a merger or alliance is made public, we hear predictions that the old Bell System monopoly is being reproduced, and that the public will lose its choices – and hope for more choices in telecommunications. But, time and again, reports of the death of competition have been exaggerated. In fact, competition may be getting stronger.

We urge the Commission to look upon the proposed transaction with that history in mind. We believe that not only will the acquisition of GTE by Bell Atlantic do little to reduce competition, but that the potential benefits to consumers could be significant.

It is important to note that the proposed transaction is part of a broader restructuring of the telecommunications market. As the telecommunications technology advances, and threats of competition to former monopoly providers increase, it has been increasingly clear that the articficial division of the industry into seven neat regions, plus GTE, no longer makes sense. Far from being a regional business, telecommunication is national – or global – in scope. For a variety of reasons -- capital formation, cost synergies, ease of one-stop-shopping -- firms are reaching out beyond their former regional limits. In short, the telecommunications industry is readjusting – throwing off the arbitrary divisions imposed on it by Judge Green in 1983, and reshaping based more on market conditions. This acquisition is one step in that process.

This does not mean that competition will be lessened – the monopoly Bell System is not being recreated. No one will see a reduction in the number of wireline telecommunications choices because of this acquisition. Bell Atlantic and GTE currently

[1] Our work on competition policy, as well as other issues, is summarized on the Competitive Enterprise Institute website at http://www.cei.org.

do not compete with one another in this market.[2] And according to the evidence thus far available, neither has planned to do so.

Certainly, on a national basis, the number of local exchange carriers will be reduced, and the national market share of Bell Atlantic will increase. But, that, by itself, does nothing to hurt consumers or harm the public interest. A GTE customer in Los Angeles, for instance will see no less competition for his or her business as a direct result of this acquisition.

Indirectly, however, there is the promise of significantly more competition. Bell Atlantic and GTE have argued that this merger will allow them to compete more effectively out-of-region -- against other existing and proposed competitors, including SBC-Ameritech, WorldCom-MCI, and AT&T-BT-TCI. They are not alone in this assessment – others see this and other acquisitions as leading to a competitive head. Former Commission Chairman Reed Hundt, for instance, has said, "They're beefing up like sumo wrestlers to go after each other big time."[3]

The view that more – not less – competition will result from this acquisition is also supported by stock market analysis. As explained by former Federal Communications Commission chief economist Thomas W. Hazlett in a declaration for Bell Atlantic, if a lessening of competition expected, one would see stocks of other telecommunications firms to rise on the news of this merger, because of an expectation of higher profits. But, according a stock-market analysis by Hazlett, the stocks of Bell Atlantic-GTE's four major actual and potential competitors experienced negative returns after the announcement.[4] If this acquisition increased their market power, their stockholders didn't see it.

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[2] Although they do overlap slightly in certain other markets.

[3] It is interesting to note that the trend toward three or four big competitors not unique to telecommunications. As Economists Jagdish N. Sheth and Rajendra Sisodia have argued, a trend toward a "Rule of Three" is apparent is many other markets, including beer, rental cars, and even pizza markets, and is being re-established in the automobile market. They argue that there are natural efficiencies in this number. *See,* Jagdish N. Sheth and Rajendra Sisodia, *Only the Big Three Will Survive,* Wall Street Journal, May 11, 1998, p. A22.

[4] *Declaration by Thomas W. Hazlett,* p. 3.

None of this, of course, proves that this particular merger will deliver the competitive efficiencies that have been projected. Many mergers fail to deliver the benefits foreseen, such as AT&T's ill-fated acquisition of NCR.[5] But the Commission should not, and can not, demand any such certainty as a condition of approval. In any dynamic industry, there is uncertainty, and the possibility of failure. Different competitive theories will be tested in the market. Is a larger capital base the key, or specialization in niche markets? Should geographic scope for diversity of product lines be maximized? This is part of the natural discovery process of a marketplace. Far from being a reason to reject a transaction, it can be a sign of a healthy marketplace.

For the reasons outlined above, the Commission should move expeditiously to approve the request for transfer of licenses.

Respectfully submitted,

James L. Gattuso
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[5] Even when they succeed, it is difficult to foresee the exact benefits they will confer. *See, Federal Communications Commission v. RCA Communications Inc.*, 346 U.S. 86, 97 (1953), as cited in *Statement of Thomas W. Hazlett,* at 2. ("In the nature of things, the possible benefits of competition do not lend themselves to detailed forecast...").